

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**A REVIEW OF
THE DEPARTMENT OF FISH AND GAME**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-669

A REVIEW OF THE
DEPARTMENT OF FISH AND GAME

APRIL 1987



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Auditor General

April 1, 1987

F-669

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Department of Fish and Game's compliance with Chapter 1310, Statutes of 1985, legislation that amended sections of the Fish and Game Code affecting licensing operations. Primarily because of the department's interpretation of the legislation, the department is not fully complying with all requirements. The department has, however, either implemented or taken steps toward implementing the recommendations we made in previous reports on the administration of commercial fishing, fish taxes, and data processing.

We conducted this audit to comply with Chapter 1310, Statutes of 1985.

Respectfully submitted,

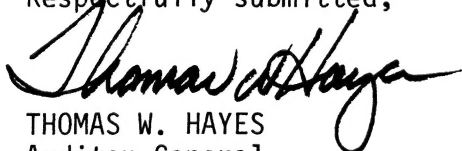

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

Primarily because of the Department of Fish and Game's (department) interpretation of Chapter 1310, Statutes of 1985, the department is not complying with all of the requirements affecting licensing operations. The department interprets the law to apply only to agents who were licensed or to licenses consigned to agents after the legislation became effective. However, the Legislative Counsel concluded on specific sections of the legislation that it applies to all agents and all licenses on consignment when the legislation became effective on September 30, 1985. As a result, the department exposes the State to unnecessary risk of lost revenue. The department is, however, complying with some requirements of the legislation.

Additionally, the department has implemented many of the Office of the Auditor General's previous recommendations regarding the administration of commercial fishing, fish taxes, and data processing and has made progress towards implementing the remaining recommendations.

BACKGROUND

In September 1985, Chapter 1310, Statutes of 1985, took effect; this legislation added or changed sections of the Fish and Game Code that affect fishing and hunting license operations. The department is responsible for administering the Fish and Game Code and ensuring that fish and wildlife are preserved for the use and enjoyment of the public. The department's License and Revenue Branch sells licenses to the public and consigns licenses to agents and regional field offices and is also responsible for ensuring that agents comply with the law.

PRINCIPAL FINDINGS

The Department of Fish and Game Is Not Fully Complying With Recent Changes to the Fish and Game Code Affecting License Operations

The department believes that Chapter 1310, Statutes of 1985, which took effect on September 30, 1985, applies only to agents who were licensed or to licenses consigned to agents after the legislation became effective. In contrast, the Legislative Counsel concluded on specific sections of the legislation that it applies to all agents and all licenses on consignment when the legislation became effective. Primarily because of how it interprets the law, the department allowed license agents to return certain unsold, expired licenses past the return deadline, has not adequately documented whether license agents promptly report losses, has not assessed penalties and interest on all accounts, and has not determined whether all license agents have appropriate bond values. In addition, the department does not promptly require license agents who are late in meeting their reporting requirements as defined by the Fish and Game Code to obtain bonds, and it consigns additional licenses to agents who have not returned expired ones by the required deadline. As a result of these conditions, the department exposes the State to unnecessary risk of lost revenue.

The Department Has Made Improvements In Its Administration of Commercial Fishing, Fish Taxes, and Data Processing

The Office of the Auditor General's report, "The State of California Could Better Protect Commercial Fishing Resources," Report P-488, August 1985, concluded that the department's enforcement of commercial fishing regulations could be improved. Additionally, the Office of the Auditor General's report, "The Department of Fish and Game Is Not Collecting All Revenues Owed to the State," Report P-546,

November 1985, concluded that the department had poor collection procedures for licensing and fish tax revenues because of inadequate administrative practices and also had poor controls over data processing activities.

The department has improved its administration of commercial fishing activities. Additionally, the department has improved fish tax administration and has made some progress in implementing recommendations regarding data processing activities.

RECOMMENDATIONS

To comply with the law and further improve administration, the Department of Fish and Game should take the following actions:

- Comply with Chapter 1310, Statutes of 1985, as the Legislative Counsel concludes. The department should bill agents for unsold, expired licenses that were outstanding when the law became effective and also returned past the deadline, assess penalties and interest on all delinquent licenses, and ensure that all agents, whether licensed before or after the effective date, have been appropriately bonded. If the department does not agree with the Legislative Counsel's conclusions, the department should seek further clarification from the Attorney General to resolve the matter;
- Implement controls to ensure that penalty and interest are assessed on all accounts;
- Develop proper procedures and controls to ensure that license agents who do not report by the 60-day deadline obtain bonds, to ensure that agents' accounts with expired licenses not returned by the deadline are not consigned additional licenses, and to follow up on agents who report lost licenses late; and
- Continue to improve its administration of commercial fishing, fish taxes, and data processing.

AGENCY COMMENTS

The Resources Agency generally concurs with the report. The agency recognizes that the Legislative Counsel's interpretation of Chapter 1310, Statutes of 1985, is in conflict with the Department of Fish and Game's interpretation of the law and comments that the department has asked the Attorney General to render an opinion to resolve the matter. Additionally, the agency has indicated the corrective action the department plans to take regarding the remaining recommendations.

INTRODUCTION

The responsibility for protecting and conserving fish and game resources in the State lies with the Fish and Game Commission (commission) and the Department of Fish and Game (department). The commission, which is composed of five members who are appointed by the governor and confirmed by the Senate, has general regulatory powers. The commission determines fish and game seasons, sets hunting and fishing limits, and establishes methods of taking game animals and fish. The Legislature has also delegated to the commission the responsibility for formulating general fish and game policies, which the department administers and enforces.

The department, through its director, is charged with administering the Fish and Game Code and ensuring that fish and wildlife are preserved for the use and enjoyment of the public. The department's License and Revenue Branch sells licenses to the public and consigns licenses to agents and regional field offices. Under Section 1055 of the Fish and Game Code, the department may authorize any person, except "a commissioner or an officer or employee of the department" to be a "license agent" to issue licenses, license stamps, and license tags. As of November 1986, the department had approximately 2,330 agents. These agents are expected to sell approximately 4.6 million licenses, stamps, tags, and permits in fiscal year 1986-87.

With certain exceptions, Sections 8030 and 8036 of the Fish and Game Code require a license for persons whose businesses handle or deal in fish, whether the fish are taken from California waters or brought into the State fresh. Additionally, Section 8041 of the Fish and Game Code levies a landing tax on every person operating under a license or the commercial fisherman who sells fish to any person who is not a licensed fish receiver. The department's Wildlife Protection Division is responsible for enforcing the fish and game laws and for maintaining game species in the State.

Each licensed fish dealer must submit a form each month that states the number of pounds received during that month and the amount of tax owed to the State. The department's Compliance and External Audits Branch is responsible for ensuring that the department collects taxes, interest, and penalties as required by the Fish and Game Code for all of the department's programs, including sport fishing and commercial fishing.

The department is funded mainly through the Fish and Game Preservation Fund, which derives its revenues primarily from the sale of fishing and hunting licenses, from court fines, and from commercial fishing taxes. Revenues to the Fish and Game Preservation Fund for fiscal year 1985-86 were approximately \$51.1 million.

In 1985, the Office of the Auditor General issued two reports related to the department's administration of its programs. The first,

"The State of California Could Better Protect Commercial Fishing Resources," Report P-488, August 1985, concluded that the department could improve its enforcement of commercial fishing regulations. The second, "The Department of Fish and Game Is Not Collecting All Revenues Owed to the State," Report P-546, November 1985, concluded that the department had poor collection procedures for licensing revenues and fish tax revenues and had poor controls over data processing activities. In September 1985, during our review for the November 1985 report, Chapter 1310, Statutes of 1985, took effect; this legislation added or changed sections of the Fish and Game Code that affect fishing and hunting license operations.

SCOPE AND METHODOLOGY

The purpose of this audit was to review the Department of Fish and Game's fishing and hunting license operations and to determine whether the department is complying with the sections of the Fish and Game Code amended by Chapter 1310, Statutes of 1985, which were effective September 30, 1985. We examined the department's summary of Fee Remittance and Accounting Reports and the Delinquency Reports submitted monthly to the Department of Finance as required by Section 1070(b) of the Fish and Game Code. Additionally, we reviewed the department's progress in implementing the recommendations related to fish taxes and data processing activities made in our two 1985 reports.

To determine the department's compliance with the legislation and with our previous recommendations, we interviewed department personnel, documented operational procedures, reviewed the department's records of license agents, and examined license reports submitted by agents.

AUDIT RESULTS

I

THE DEPARTMENT OF FISH AND GAME IS NOT FULLY COMPLYING WITH CHANGES TO THE FISH AND GAME CODE AFFECTING LICENSING OPERATIONS

Primarily because the Department of Fish and Game (department) interprets Chapter 1310, Statutes of 1985, which took effect on September 30, 1985, to apply only to license agents who became agents or to licenses consigned to agents after the legislation became effective, the department is not fully complying with all requirements of the Fish and Game Code related to licensing operations. The department allowed license agents to return certain unsold, expired licenses past the return deadline, has not adequately documented whether license agents promptly report losses, has not assessed penalties and interest on all accounts, and has not determined whether all license agents have appropriate bond values. The Legislative Counsel has concluded on specific sections in Chapter 1310, Statutes of 1985, that the law applies to all agents and all licenses on consignment when the legislation became effective. In addition, the department does not promptly require license agents who are delinquent in reporting to obtain bonds, and it consigns additional licenses to agents who have not returned expired licenses by the deadline. As a result of these conditions, the department exposes the State to the unnecessary risk of lost revenue.

The Department Allowed License Agents
To Return Certain Unsold, Expired
Licenses Past the Return Deadline

Section 1055(h) of the Fish and Game Code allows the department to accept from agents unsold, expired licenses for credit if the licenses are returned within 60 days of the end of the season. However, Section 1055(i) of the Fish and Game Code prohibits the department from allowing agents to receive credit for licenses not returned within 60 days of the end of the season.

We examined licenses that agents returned more than 65 days after the expiration dates for the sport fishing, commercial fishing, and hunting seasons, allowing an additional 5 days for transit time as well as the 60 days specified by law. We reviewed records dating from October 1, 1985, since it was the first day after the law became effective.

From October 1, 1985, to November 3, 1986, the department allowed eight agents who received licenses before the passage of Chapter 1310, Statutes of 1985, to receive credit for 663 unsold, expired licenses issued for the 1980 through 1985 fishing and hunting seasons. According to the chief license officer, the department has allowed agents to return unsold, expired licenses and to receive credit for licenses they returned based on an informal legal opinion from the department's legal advisor stating that the requirements of the law affect only licenses consigned after September 30, 1985, the date that

the legislation became effective. However, the Legislative Counsel concluded that "the department may not grant credits for returned unsold, expired licenses consigned to a license agent prior to September 30, 1985, if the license agent did not return the licenses within 60 days following the last day of the license year."

As a result of not collecting the value of unsold, expired licenses returned past the deadline, the department lost approximately \$4,900 for the 13 months that we reviewed. Because it would not be beneficial to agents to keep unsold, expired licenses and because many months have passed since licenses consigned before September 30, 1985, would have become expired, we do not expect that agents have many additional unsold, expired licenses outstanding that were consigned before September 30, 1985.

The Department Has Not Adequately
Documented Whether License
Agents Promptly Report Losses

Section 1055.5(b) of the Fish and Game Code requires license agents to report any losses of licenses, license stamps, license tags, and license fees to the department on or before the end of the business day following the loss. However, the department has not adequately recorded the dates the agents reported losses and the dates the losses occurred. From January 1986 through August 1986, the department processed 48 affidavits for 3,639 licenses that 36 agents reported lost during the 1983 through 1986 fishing and hunting seasons. Agents

reported the licenses lost due to theft, fire, and flood; licenses lost by carrier or in the mail; licenses never received; and licenses destroyed. For example, an agent filed an affidavit in March 1986 for eighty 1986 fishing licenses that he reported stolen. Although the agent filed a police report that stated the loss occurred January 31, 1986, the agent did not notify the department of the loss until he received a quarterly statement from the department sent out in March 1986. When the agent responded to the quarterly statement, the department did not record the date of the agent's response.

According to the chief license officer, the department did not adequately record the dates the agents reported losses and the dates the losses occurred because department administrators believed that Chapter 1310, Statutes of 1985, did not apply to licenses issued before September 30, 1985, the date that the law took effect. However, for 640 fishing licenses issued and lost in 1986 after the effective date of the legislation, the department also did not adequately document whether license agents reported losses as required. The department did not adequately document losses because it did not implement documenting procedures until September 1986, a year after the law took effect. Although the department has now established procedures to document losses, the chief license officer believes that the law does not specify the consequences for license agents who do not report losses within the required time. Further, the chief license officer believes that the 24-hour reporting period is unreasonable.

Because the department did not adequately document whether license agents reported losses promptly, it was unable to ensure that license agents complied with the law requiring prompt reporting. Additionally, if the department documents losses but does not follow up on instances in which agents have not reported losses promptly, the department is less able to account for licenses and to hold agents responsible for licenses consigned to them.

The Department Has Not Assessed
Penalties and Interest
On All Accounts of License Agents

Section 1055.5(e) of the Fish and Game Code requires the department to charge penalties and interest on all license books that are not returned within 30 days following the month the last license was sold. The department did not promptly implement a penalty and interest program when Chapter 1310, Statutes of 1985, became effective. Instead, the department implemented the program on July 1, 1986, nine months after the law took effect.

According to the chief license officer, the department did not implement the penalty and interest program until July 1, 1986, because it took the License and Revenue Branch time to obtain additional staff and to develop procedures for the penalty and interest program. Currently, the chief license officer is determining the cost and benefit of retroactively assessing penalties and interest accrued from October 1, 1985, through July 1, 1986. However, the chief license

officer stated that she is not considering assessing penalties and interest on licenses that were outstanding before September 30, 1985, because department administrators believe that Section 1055.5(e) of the Fish and Game Code does not affect licenses consigned to agents before the legislation became effective. However, the Legislative Counsel has concluded that "the department is required to collect penalties and interest on delinquent licenses that were issued prior to September 30, 1985."

Further, the department is not assessing penalty and interest on all accounts of license agents who have submitted delinquent license books. We selected 48 agents who had not reported in the prior month because we expected them to have a higher probability of returning books late. Twenty-four of the 48 agents reported delinquent license books in September 1986. The department made appropriate assessments on only 17 of these 24 accounts. However, the department did not assess penalties and interest totaling approximately \$245 on the remaining 7 agents. Although this amount is minimal, this example illustrates that the department does not have appropriate controls to ensure that the department assesses all agents reporting late books.

The department did not make all the necessary assessments for penalties and interest because it has not set up controls to ensure that all late returns are detected and processed. The chief license officer acknowledged that some assessments had not been made because the License and Revenue Branch failed to identify all late books for

penalty and interest processing. Although the department has had the capability since August 1986 to run a computer program that lists the date of the last license sold for each license book, the department has not used the program to ensure that all late books are detected and processed.

As a result of not implementing the penalty and interest program promptly, not assessing penalties and interest on late books assigned to agents before the legislation, and not assessing penalties and interest on all delinquent books, the department lost revenue.

The Department Has Not Determined
Whether All License Agents
Have Appropriate Bond Values

Section 1056(a) of the Fish and Game Code requires license agents to execute a bond or certificate of deposit, payable to the department, that is equal to the value of outstanding license fees, stamps, and tags. According to this section, "the bond or certificate of deposit shall secure the faithful accounting and payment to the department of the funds collected;" that is, the value of the bond shall establish the agent's consignment level or credit limit. However, Section 1056(c) of the code allows the department to waive the bond or certificate of deposit for agents who have not reported late in each of the preceding 12 months.

The chief license officer stated that after Chapter 1310, Statutes of 1985, took effect on September 30, 1985, the department did not conduct a complete review of license agents to determine whether bond values needed to be increased and whether some agents qualified for a bond waiver. The chief license officer also stated that the department allowed agents to continue to have waivers if they had waivers before the effective date of the legislation. The chief license officer further stated that the department consigns licenses that exceed an agent's bond if the agent was licensed before the effective date of the legislation. According to the chief license officer, the department does this because the department does not believe that Chapter 1310, Statutes of 1985, which establishes the bond amount as the credit limit, applies to those agents. Additionally, the chief license officer stated the department believes that when the agent fully complies with the legislation's reporting requirements for 12 months, the bond ceases to serve as a credit limit.

The chief deputy director informed us that the department knew at the time the law passed that the department could not immediately comply with the law with respect to determining whether agents already licensed were properly bonded. However, he believed that the department would fully comply with the law within a year because he believed that the department would require all agents previously granted waivers to obtain bonds if they did not report promptly during the next 12 months. The chief deputy director further stated that this belief is consistent with the department's interpretation of the

prospective implementation of the law. However, the department does not request agents to obtain bonds until it sends out a second delinquency letter. An agent could report late in each of the 12 months but as long as the agent reported before the department sent out a second delinquency letter, the department would not request the agent to obtain a bond. As a result, the department has allowed certain agents licensed before the law passed to continue to be waived from bonding without ensuring that the agents meet the requirements for a waiver.

The chief license officer further stated that the department did not limit the total value of licenses consigned to license agents to the amount of their bonds because the department believes that under the law, agents must be held to bond limits for a 12-month period only, unless they fail to comply with Section 1055.5 of the Fish and Game Code.

The Department Does Not Promptly
Require License Agents Who Are
Delinquent in Reporting To Obtain Bonds

Section 1056(b) of the Fish and Game Code requires license agents who fail to report within 60 days after the last day of the calendar month in which license fees were collected to obtain a bond if the agents want to continue as license agents. However, the department does not have an adequate system to bond agents by the required date. Instead, the department asks agents to obtain a bond when the

department's computer system generates a second delinquency letter, which can be sent out significantly later than 60 days after the last day of the calendar month.

Before September 30, 1985, the effective date of Chapter 1310, Statutes of 1985, the department developed a computerized procedure that generates a series of three letters to license agents who are delinquent in reporting. In November 1985, the department implemented the procedure. If the computer identifies that it has been at least 46 days after the agent's last report, it generates the first letter; it generates the second letter 30 days later, and finally, the third letter 30 days following the second. The department generates delinquency letters to agents once a month using a cut-off date, generally around the 20th of the month. Contrary to the law's requirements, the system does not calculate 60 days from the last day of the calendar month in which the fees were collected to determine the number of days agents are delinquent. Instead, it determines delinquency by calculating the number of days from the date an agent last submitted a report. Therefore, an agent can be at least 60 days delinquent in reporting but will not receive a second delinquency letter until later. For example, one agent reported on June 19, 1986, and did not report again until September 11, 1986. The agent reported May receipts in June and the next report should have been for June receipts; thus, the 60-day delinquency period required by law began on July 1, 1986. Counting from July 1, the account would have been 60 days delinquent on August 29, 1986, and the department should have

asked the agent to obtain a bond on that date. However, because the department does not ask agents to obtain bonds until it sends out a second delinquency letter, the department would not have requested a bond until the cutoff date of September 21. The department did not request the bond because it received a report from the agent on September 11, 1986.

The department does not promptly ask agents who are 60 days delinquent to obtain bonds because it relies on its current computer system, which measures delinquency differently than required by law. However, the chief license officer believes that the department is complying with the intent of the law.

Additionally, according to the chief license officer, the department does not require outlets within large corporations to obtain bonds, even if the outlets license sales are reported 60 days delinquent because the department considers the corporation to be the agent. The chief license officer stated that the agent is financially responsible for any liabilities incurred by their outlets, and, therefore, the department does not consider these outlets to be a risk. The chief license officer further stated that at this point, no large corporations have fallen out of compliance.

The Department Consigns Additional
Licenses to Agents Who Have Not
Returned Expired Licenses by the Deadline

Section 1055(i) of the Fish and Game Code requires license agents to return all expired licenses to the department. This section further states that agents who do not return these licenses within 20 days of the end of the license season cannot obtain additional licenses from the department until they return the expired ones.

However, the department is consigning additional licenses to agents who have not returned expired ones by the deadline. We reviewed all 2,382 agent accounts as of August 30, 1986, two months after the end of the hunting season, and we identified 260 accounts with expired and overdue licenses. The department had started collection procedures on 107 of the accounts with overdue, expired licenses, and therefore, we eliminated them from our review. We reviewed the remaining accounts again in December 1986 and found that of the 153 accounts with overdue, expired licenses, the department had consigned additional licenses to 104 accounts. As of August 30, 1986, the 104 accounts held 23,640 overdue, expired licenses totaling \$156,526. According to the chief license officer, the department consigned additional licenses for 50 (48 percent) of the 104 accounts either because the number of expired licenses on consignment to the individual accounts was minimal, or because agents indicated that the expired licenses were in transit. The department consigned additional licenses to 13 (13 percent) of the 104 accounts because the accounts were being researched to determine

whether they indeed held expired licenses. At the time of our review, department staff informed us that they could not explain the reason for additional consignments because the department did not check on 6 accounts, and the remaining 35 accounts required in-depth research.

According to the chief license officer, the department is not risking loss of revenue by consigning additional licenses to some agents with expired licenses because the department consigns additional licenses only to agents with a good reporting history. Additionally, the chief license officer believes it is important to ensure that an adequate supply of licenses is made available to the public through the license agents.

By consigning additional licenses to the agents who have not returned expired licenses by the deadline, the department is not complying with the law.

The Department Is Complying With
the Remaining Requirements of
Chapter 1310, Statutes of 1985

The department is complying with other requirements of Chapter 1310, Statutes of 1985. It is complying with Sections 1054.5, 1055(a) through (h), 1055.5(c) and (d), 1059(a), and 1070(a) of the Fish and Game Code. For example, the department properly prepares and promptly submits summary reports to the Department of Finance: the department has adequate procedures both to ensure that the Fee

Remittance and Accounting Reports contain accurate and complete data of license sales for the reporting month and also to ensure that the Delinquency Reports identify the names and addresses of license agents who are late in reporting. Additionally, the department has adequate procedures to ensure that license books sold by license agents do not exceed the value of 20 resident sport fishing licenses.

The department did not initially comply with requirements established by Chapter 1310, Statutes of 1985, which prohibited the department from consigning additional licenses to agents who had not reported within 20 days following the last day of each calendar month. However, in September 1986, the Legislature amended the law so that the department now has one month and 20 days following the last day of each calendar month before it must prohibit consignment. The department does comply with this deadline.

Although the department complies with the consignment deadline, not all agents report by the date required. We reviewed the 2,382 agent accounts as of August 30, 1986, and found that 403 agents (17 percent) had not reported by the 20th of the month. Section 1055.5(a) of the Fish and Game Code requires license agents to remit the fees with an accounting report for the sale of license books sold by the last day of the preceding month no later than 20 days following the last day of that calendar month. The department's primary means of enforcing the requirement that agents report promptly is to withhold additional licenses until the agents do report.

Although the Legislature did not change when an agent must report, the Legislature did change the deadline when the department may withhold licenses. As discussed previously, the department does comply with the amended consignment deadline.

CONCLUSION

Primarily because of the Department of Fish and Game's interpretation of Chapter 1310, Statutes of 1985, the department allowed license agents to return certain unsold, expired licenses past the return deadline, has not adequately documented whether license agents promptly report losses, has not assessed penalties and interest on all accounts of license agents, and has not determined whether all license agents have appropriate bond values. In addition, the department does not promptly require agents who are late in reporting to obtain bonds, and it consigns additional licenses to agents who have not returned expired licenses. As a result of these conditions, the department may be losing revenues.

RECOMMENDATIONS

To fully comply with Chapter 1310, Statutes of 1985, the Department of Fish and Game should take the following actions:

- Based on the Legislative Counsel's opinion, bill agents for unsold, expired licenses that were outstanding on September 30, 1985, and returned more than 60 days past the expiration date;
- Continue to use procedures developed in September 1986 for documenting agents' losses of licenses and follow up when agents report losses late. If the department does not believe that the law specifies what the department should do about agents who report losses late and if it does not believe the 24-hour period to be reasonable, the department should consider requesting that the Legislature change the law as needed;
- Assess penalties and interest on the accounts of agents who submitted license revenues late between October 1, 1985, and July 1, 1986, including those accounts with licenses outstanding on September 30, 1985, as the Legislative Counsel concluded;
- Use the existing computer program, which lists the date of the last license sold in each book, to ensure that all agents who return delinquent books are being assessed penalties and interest;

- In accordance with the Legislative Counsel's opinion, ensure that all agents that need to be bonded, whether licensed before or after the legislation took effect, have bonds with appropriate values that equal the amount of license fees outstanding;
- Develop proper procedures and controls to ensure that license agents who fail to report within 60 days following the last day of the calendar month in which the fees were collected are promptly identified and bonded. If the department believes that it needs flexibility in waiving bonds for outlets within large corporations, the department should consider requesting that the Legislature change the law;
- Establish controls to ensure that the department does not consign licenses to agents who have expired licenses that they have not returned by the deadline. If the department does not believe the current deadline is feasible, the department should consider requesting that the Legislature change the deadline; and
- Seek further clarification from the Attorney General to resolve the matter if the department does not agree with the Legislative Counsel's conclusions that the department has not always interpreted Chapter 1310, Statutes of 1985, properly.

II

THE DEPARTMENT OF FISH AND GAME HAS MADE IMPROVEMENTS IN ITS ADMINISTRATION OF COMMERCIAL FISHING, FISH TAXES, AND DATA PROCESSING

The Office of the Auditor General's report, "The State of California Could Better Protect Commercial Fishing Resources," Report P-488, August 1985, concluded that the department's enforcement of commercial fishing regulations could be improved. Additionally, the Office of the Auditor General's report, "The Department of Fish and Game Is Not Collecting All Revenues Owed to the State," Report P-546, November 1985, concluded that the department had poor collection procedures for licensing revenues and fish tax revenues because of poor administrative practices and that it lacked necessary controls for its data processing activities. Since we issued our previous reports, the department has made improvements in administering commercial fishing activities. Additionally, the department has made improvements in administering fish taxes and has made ~~some~~ progress in implementing recommendations regarding data processing activities.

The Department Has Made Improvements in Its Administration of Commercial Fishing Activities

In our August 1985 report, we made recommendations regarding hiring practices and enforcement activities in commercial fishing and recommendations regarding the herring fisheries. The department's

Wildlife Protection Division has made changes in hiring procedures and has increased its marine enforcement activity to emphasize enforcement of commercial fishing regulations. The Fish and Game Commission has considered the recommendations regarding the herring fishery but has concluded that its present policies are the appropriate regulations to ensure an orderly fishery.

Changes in Hiring Procedures

The department has taken measures to decrease the vacancy and staff turnover rate of warden positions in the Southern California metropolitan area. It has established a Hiring Practices Committee, which has developed and implemented plans for filling vacant warden positions, including a special media campaign directed at affirmative action candidates (women, minorities, and the handicapped). Moreover, the department made each warden responsible for recruiting at least one affirmative action candidate for the most recent warden examination, administered in April 1986. Further, according to the chief of the Wildlife Protection Division, the department worked to change the wardens' labor contract so that wardens must stay in their assignments for three years before being able to transfer to other positions. Finally, according to the chief of the Wildlife Protection Division, the department has established the policy that wardens must postpone transferring to other positions if there are more than two vacancies in their squads.

Despite the efforts the department has made, it still has problems staffing warden positions in the Southern California metropolitan area. Region 5, which consists of Los Angeles, Ventura, Orange, San Diego, Imperial, and Riverside counties, had an average vacancy rate of 12.5 percent on September 30, 1986. In comparison, the vacancy rate for state positions, as determined by the Department of Personnel Administration, was 6.5 percent on September 30, 1986.

One reason that the vacancy rate for wardens is greater than that of other state positions is that the department has a lengthy process for hiring wardens. The deputy chief of the Wildlife Protection Division stated that the hiring process requires approximately two months for the department to perform an extensive research and assessment of each candidate. The process includes a research of personal and work history, psychological evaluations, security checks, and physical testing. According to the deputy chief of the Wildlife Protection Division, these practices, plus standard state hiring procedures, generally take four months.

Additionally, the State Personnel Board requires the department to fill 60 percent of vacant positions with affirmative action candidates. We examined the certified lists from which the department hired wardens during April 16, 1986, through July 16, 1986. The department had two lists: one contained the name and ranking of affirmative action candidates, and the other, the "open list," contained the name and ranking of the remaining candidates. According

to the deputy chief, the Wildlife Protection Division is able to attract affirmative action candidates; however, these candidates often lose interest in the warden positions or do not pass the physical test. The department offered a position to only one of the top 15 candidates from the affirmative action list because the remaining candidates did not pass the background check or the physical test, or were no longer interested in a warden position. As a result, it takes longer for the department to meet its affirmative action goal. In contrast, the department was able to offer positions to 9 of the top 15 candidates from the open list; 7 of the open list candidates accepted the offer.

Finally, according to the deputy chief of the Wildlife Protection Division, the department has difficulty filling and keeping the Region 5 warden positions filled because Region 5 wardens often transfer to more desirable areas as opportunities arise. According to the deputy chief of the Wildlife Protection Division, the Los Angeles area is not a desirable place to be assigned because the lifestyle in the area is not usually attractive to people with backgrounds in wildlife preservation and maintenance. The department does not, however, offer the warden examination in the Los Angeles area to attract candidates who already live there and who may wish to remain in the area. Because of the high vacancy rate for warden positions in the Southern California metropolitan area, there are fewer wardens available to enforce commercial fishing regulations.

To overcome the high vacancy rate for warden positions in the metropolitan areas, the deputy chief of the Wildlife Protection Division stated that the department is considering contracting to perform the background investigations so that it can reduce the time spent reviewing candidates. Additionally, the department is considering developing a pool of researched and approved candidates who are ready to be placed in a warden position as soon as it is vacated.

Increases in Marine Enforcement Activities

The department has increased its marine enforcement activities and has reorganized the responsibilities so that each warden is responsible for enforcing commercial fishing regulations. The Wildlife Protection Division, the policy-setting unit for the wardens, has formed the Special Operations Unit, which performs monthly investigations of fish businesses. During the investigations, wardens visit fish businesses to determine whether dealers are in violation of the Fish and Game Code and whether fish dealers maintain appropriate and accurate data. Furthermore, the department has made a commitment to educating the public about marine regulations and to increasing time spent on marine enforcement by 10 percent. All regional administrative personnel are required to make contact every month with at least eight sport and commercial marine industry representatives who are unrelated to law enforcement. Finally, all wardens are required to be familiar with all of the Fish and Game Code to enforce both marine and inland regulations.

No Changes in the Herring Fishery

The Fish and Game Commission (commission) considered the recommended changes in the herring fishery but believes its present policies are the appropriate regulations to ensure an orderly fishery. In our August 1985 report, we recommended that the commission consider an applicant's gill net experience in other fisheries to allow more fishermen to be eligible for the herring permits. The commission believes that permittees need the experience acquired in the herring fishery if they are to be successful and if problems are to be avoided.

Additionally, we recommended that as a means of increasing the number of vessels available for herring fishing, the commission should not allow herring vessels in San Francisco Bay to be used in more than one platoon unless the commission determines that a sufficient number of adequate vessels is not available. The commission believes that if it had not limited the number of vessels and thus, ensured an orderly fishery, the Legislature would have closed San Francisco Bay to herring fishing.

The Department Has Made Improvements in Its Administration of Fish Tax Revenue Collection

In our November 1985 report, we made recommendations concerning the department's administration of fish taxes. The report recommended that the department assess and collect taxes owed by shrimp

dealers. Additionally, the report made recommendations regarding administration of the fish tax program, collection activities, and policies and procedures. Further, the report recommended that the department implement systems for maintaining balances of dealer accounts and monitoring license renewals. Finally, the report recommended that the department redirect the work of the department's auditor to include other department programs and institute regular management reviews of the fish tax program. The department created the Compliance and External Audits Branch (branch), whose responsibilities include administering the fish tax program, and it has made improvements in most areas of fish tax administration.

Shrimp Dealer Taxes

The department has assessed and collected approximately \$105,850 in taxes for four of the six shrimp dealers identified in our previous audit report as not having paid taxes on the shrimp they process. The remaining two dealers, who owe approximately \$454,600, are protesting the tax assessment and, according to the department's legal advisor, are presently negotiating a settlement with the Attorney General's Office. Additionally, the department has assessed and collected approximately \$2,060 in back taxes from three more shrimp dealers it recently identified.

Program Administration, Collection
Activities, and Policies and Procedures

The department has appointed a branch chief who is directly responsible for all activities of the fish tax program. Additionally, the branch employees assigned activities in the fish tax program report directly to the branch chief. The department has developed both a mission statement that addresses the scope of the fish tax program and also has developed descriptions of the roles and responsibilities of program personnel.

The branch has developed draft policies and procedures for the assessment and collection of fish taxes, penalties, and interest owed. The department checks agents off from a monthly master list as the department receives their reports. According to the branch chief, the department contacts dealers who are 60 days late in reporting by telephone, letter, or through a visit of the Special Operations Unit to determine if the business is still operating and to try to collect on taxes, penalties, and interest.

Section 8053 of the Fish and Game Code, effective September 24, 1986, gives the department the authority and determines the method for charging interest on overdue tax payments using the procedures in the Revenue and Taxation Code. The branch has developed draft procedures for payment tracking, interest assessment, and collection. The department started collecting interest on late tax in December 1986 and has identified the tax reports that need to be

assessed interest for September 24, 1986, through December 1, 1986. The department plans to begin collection on these accounts as soon as workload allows.

Additionally, the department has implemented draft procedures for collecting from dealers who do not remit taxes, penalties, and interest. These methods include use of liens, warrants, levies, offsets, and wage garnishment.

Dealer Account Balances and License Renewals

The department has not, however, implemented an automated system to monitor dealer account balances. According to the branch chief, the department has not done so yet because the department included a request for developing an automated system for maintaining dealer account balances in a needs assessment recently performed for the department's Fiscal Systems Feasibility Study. If the request is approved, the department's data processing unit will develop programming to allow the branch to review dealer account balances.

Also, the department has not developed and implemented a system for monitoring whether fish dealers renew licenses. Instead, according to the branch chief, the department has focused its efforts on licensing new dealers. The branch chief indicated that when the department is confident it has identified and licensed most of the unlicensed new dealers, it will shift its focus to monitoring license renewals.

Program Audits and Management Review

The branch reviews license agents in the License and Revenue Branch and also reviews contracts let by the department. According to the branch chief, the business taxes compliance specialist will spend approximately 60 percent of his time auditing license agents. The branch has notified various branches in the department that it is available to perform contract compliance audits. The branch has also developed a general audit program for contract compliance audits. Presently, it has a number of contract audits pending for the Wildlife Conservation Board. Further, the branch is available for audits as requested by the department management.

Finally, the assistant director of administration periodically performs management reviews of the fish tax program. The assistant director stated that he reviews and approves by signature all branch policies, ensuring they are consistent with the Fish and Game Code. Additionally, he reviews the branch's progress towards goals and objectives that have been set by the branch and the director.

Changes in the Electronic Data Processing Section

In our November 1985 report, we also made recommendations for the department's electronic data processing section regarding separation of duties, data security, disaster recovery, program documentation, and reconciliation of license inventory.

Separation of Duties

The department's electronic data processing section still does not adequately separate incompatible data processing duties. One programmer who has access to computer files is also able to change agent account balances. The data processing manager has not implemented a control process yet to prevent programming staff from possibly modifying data through their access to existing files.

The State Administrative Manual, Section 4846.5, states that no employee should be allowed complete control over all important stages of a transaction. Further, Section 4846.5 requires the system programming function to be separate from the system library and the computer operator functions.

Because the department does not adequately separate incompatible data processing duties, department programmers are in a position to accidentally or purposefully post incorrect increases or decreases to license agent accounts without being detected by other departmental personnel. These errors could include deleting agent accounts, modifying amounts owed, and adding fictitious agents.

The data processing manager indicated that, until recently, there have not been enough data processing staff to allow for adequate separation of incompatible data processing duties.

Operations Security

According to the department's data processing manager, the department has implemented adequate security measures for computer operations by limiting access to computers, data files, and computer programs to authorized individuals by maintaining control points at the data processing facility. According to the data processing manager, the staff members keep the computer room and the room outside the computer room locked. During our site visit, we observed that the doors were locked. Additionally, the department controls the keys issued to staff.

Disaster Recovery

The department has not made arrangements to continue operations should a physical disaster or computer failure take place. Currently, the department's computer records showing amounts owed by license agents would not be accessible to department employees if the department's computer broke down. Operations involving the collection of revenues would be disrupted. The department's data processing manager has, however, evaluated several options for ensuring that the department's computer operations continue should a disaster occur. Additionally, the department is waiting until the completion of a feasibility study before they adopt a plan. The department is, however, making backup copies of files and storing them at other locations.

Program Documentation

The department has made some progress but has not yet provided adequate documentation and data processing instructions for the department computer systems. Since our last review, the department has only generated current copies of program coding. The department has not developed adequate program and file narratives, record layouts, sample reports, logic charts, and data entry instructions. As a result, the department's data processing system may not function effectively if key data processing personnel leave the department. The department's data processing manager indicated that adequate program documentation has not been developed because there have not been enough staff hours available to complete the task.

Reconciliation of Inventory

The department has not developed a system, supported by source documents, to completely reconcile additions to and deletions from the license inventory. Good control procedures require evidence that staff have reconciled monthly new additions to the license book inventory file to the invoices for printing new license books; that the monthly consignments posted as deductions to the license book inventory file agree with the monthly consignments posted as additions to the license agent consignment file; that cash receipts posted as deductions to the agent consignment file agree with cash receipts posted as additions to the cash receipts file; and that returned licenses posted as deductions

to the license agent consignment file agree with returned licenses posted as increases to the license inventory file. In addition, good control requires periodic inventories of licenses to ensure that the number of licenses in the storeroom agrees with the number shown on the license inventory file and that responsible authorities approve listings of any adjustments to data files before they are posted.

The chief license officer agrees in theory with the recommendation and would like to implement it. However, the information is not easily retrievable on the computer system the department uses for administering licenses. The chief license officer stated that the department has requested a new system for its computer in the branch's feasibility study. If the department obtains a new computer system, it may be able to perform the reconciliation process on it. According to the chief license officer, the feasibility study is still in draft form and will be included in the department's automation plan, which the Department of Finance must approve before being implemented.

CONCLUSION

The Department of Fish and Game has made changes in hiring procedures to decrease the department's high warden vacancy rate. Additionally, the department has increased its marine enforcement activity. Finally, the Fish and Game Commission concluded that its present policies are the appropriate regulations to ensure an orderly fishery.

The department has made many improvements in the administration of the fish tax program. For example, the department has assigned to an administrator the responsibilities of the fish tax program, has staffed the branch, developed procedure documentation for the branch, and began to assess interest on late tax payments. However, the department has not yet developed a system for monitoring license renewal or a system for maintaining dealer account balances.

The department has made some changes in the electronic data processing section. The department has implemented security measures for computer operations and has made some progress in selecting a system that would operate if a disaster occurred. However, the department has not fully separated data processing duties, developed complete and adequate program documentation, or implemented an inventory reconciliation process.

RECOMMENDATIONS

To decrease the warden vacancy rate in the metropolitan areas, the department should take the following actions:

- Offer the warden examination in the Los Angeles area to attract candidates who already live in the Los Angeles area and may wish to remain there; and

- Develop a list of candidates who are ready to be placed in warden positions as soon as vacancies occur.

To improve administration of the fish tax program, the department should take the following actions:

- Continue with its plan to identify and license all new fish dealers, and, then, monitor license renewal; and
- Continue with its plan to automate the files of fish dealers and to provide account balances for fish dealers.

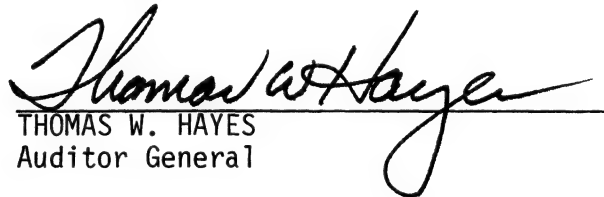
To improve data processing, the department should also take the following actions:

- Continue to separate data processing duties;
- Ensure that there is adequate program documentation for any new system the department obtains for its computer. If the department does not install a new system on its computer, the department should ensure that there is adequate program documentation for the present system; and
- Develop and implement new programming on any new system the department installs on its computer, which will allow

the reconciliation of inventory. If the department does not install a new system on its computer, it should consider requesting or reallocating the resources necessary to develop programming for the present computer system.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: March 30, 1987

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GOVERNOR OF
CALIFORNIA



THE RESOURCES AGENCY OF CALIFORNIA
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And Development Commission
San Francisco Bay Conservation
and Development Commission
State Coastal Conservancy
State Lands Division
State Reclamation Board
State Water Resources Control
Board
Regional Water Quality
Control Boards

March 18, 1987

Thomas W. Hayes, Auditor General
Office of the Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We appreciate the opportunity to review the draft of your report entitled "A Review of the Department of Fish and Game."

Attached are our specific comments on the report which were prepared by the staff of the Department of Fish and Game and approved by the Director.

Sincerely,

A handwritten signature in cursive script that reads "Gordon K. Van Vleck".

Gordon K. Van Vleck
Secretary for Resources

Attachment

Comments on the Report
"A Review of the Department of Fish and Game"

Introduction

The Department is pleased that improvements made in the administration of licenses, commercial fishing enforcement, fish taxes and data processing are acknowledged in the audit report. The Department anticipates further improvements in these areas as a result of actions currently in process.

Chapter I - The Department of Fish and Game is Not Fully Complying with
Changes to the Fish and Game Code Affecting Licensing Operations

The Department of Fish and Game feels that its licensing operation is complying with the changes to the Fish and Game Code and, therefore, does not expose the State to the risk of lost revenue. The Department has determined that the legislation is applicable to licenses, stamps, and tags consigned after the bill's passage. Also, the agent bonding and bond waiving criteria only applies to bonds obtained or waived subsequent to the bill's passage. The Legislative Counsel's interpretation is in conflict with the Department's understanding of the bill. In order to resolve this matter, the Department has asked the Attorney General to render an opinion.

The Department Has Not Adequately Documented
Whether License Agents Promptly Report Losses

The Department agrees that during the period of time that the Auditor General's team was testing, the documentation standards were not adequate for determining whether license agents have reported losses within one business day after occurrence. However, although the documentation did not contain sufficient information to confirm the dates of license agent reporting, it should be noted that adequate support documentation (e.g. police reports, fire reports, etc.) was required and is available in the agent files. These formed the basis for affidavits accepted by the Department. The Department holds the license agents responsible for the licenses that were consigned to and received by them.

As pointed out in the Auditor General's report, the Department has developed and instituted procedures that result in proper documentation. These procedures were developed prior to the audit conducted by the Auditor General.

The law does specify one consequence to the late reporting of agent losses. Under Fish and Game Code Section 1056, an agent will only qualify for a bond waiver if all the reporting requirements of Section 1055.5, which include the loss reporting requirement, are met by the agent. The Chief of the License and Revenue Branch expressed this clarification through a telephone conversation to the Auditor General's staff.

The Department is proposing legislation to revise the time frame for reporting and to reword the language so that it is clear that the time begins from the time that the agent discovers the loss.

The Department Has Not Assessed Penalties and Interest on All Accounts of License Agents

The Department agrees that it has not assessed penalties and interest for the period from the passage of Chapter 1310, Statutes of 1985 to July 1, 1986. Since the bill carried an urgency provision, the Department was unable to create a penalty and interest program before the effective date of the legislation. The Department initiated development of a penalty and interest system soon after passage of the bill. As mentioned in the Auditor General's report, the Department is weighing the economic feasibility of retroactively assessing for this period.

The Auditor General's staff tested a period when the penalty and interest program was first implemented. Due to our inexperience with the new requirements and the new system, we believe that the possibility that an agent who owes penalty and interest will be missed was much greater at that time than it is now. We concur that the use of the computer program may be helpful in reducing that possibility.

The Department will look closely at how it can incorporate the current computer-generated information into our manual penalties and interest system as a check to assure that billings are not missed. Since the Auditor General's tests did not show a material monetary loss due to the missed penalty and interest billings and since the current rate of missed billings is less than the Auditor General's testing period, the process will have to be reviewed carefully to assure that the benefits of any additional controls imposed do not exceed their costs.

The Department Does Not Promptly Require License Agents Who are Delinquent in Reporting to Obtain Bonds

The Department agrees that the current system for detecting if a license agent is required to re-bond does not precisely meet the statutory requirements. The license agent system is in the process of being computerized. A Feasibility Study Report to accomplish this task has been submitted to the Department of Finance. The new computerized system will include programs that will allow the Department to precisely meet the re-bonding requirements.

The Department does not make any distinction between agents with small and large accounts. The Department does not require individual outlets within multi-outlet corporations to re-bond because the Department considers the corporation as the license agent. Since the corporation is responsible for the actions and financial liabilities of their outlets, it does not seem reasonable to require bonds for some of their outlets but not others. Therefore, it is the Department's position that as long as the multi-outlet corporation is substantially in compliance with the reporting requirements (and all are as of this date) the re-bonding provisions of Chapter 1310, Statutes of 1985, do not apply. If the Department finds that re-bonding is required, the corporation will be required to bond all their outlets.

The Department Consigns Additional Licenses to Agents
Who Have Not Returned Expired Licenses by the Deadline

The Department agrees that under certain conditions, it has consigned additional licenses to agents who have not cleared all their previous year's licenses by the deadline. If the monetary value of an agent's uncleared licenses is small and the agent states that the expired licenses have been mailed, the agent's license order may be released. Also, if the agent disputes our contention that they still have licenses outstanding, the license orders may be released while the Department is conducting research of account records. These shipments will be released only if the agent has a good reporting history. Therefore, the Department feels that it is in substantial compliance with the law because the release of license orders only occurs if there is a question whether the expired licenses are actually outstanding, or if the expired licenses' value is small and the agent states that the licenses have been mailed.

The Department is proposing legislation to move the date that license orders are withheld from twenty days to a month and twenty days after the license year end. This change would make the license order withhold date consistent for both the non-submittal of unissued expired licenses and the non-submittal of sales reports.

The Department is Complying With the Remaining
Requirements of Chapter 1310, Statutes of 1985

The Department agrees with the conclusion that it is complying with the remaining requirements of Chapter 1310, Statutes of 1985. However, this section of the Auditor General's report also states that the primary means for enforcing reporting requirements is the withholding of additional licenses. The withholding of additional licenses is seen as a tool to limit the risk of loss if the agent is potentially financially unstable. The Department feels that the primary incentives for agents to report in a timely manner are the penalty and interest program and the game warden visits. The penalty and interest program specifies monetary penalties if sold licenses are not reported in a timely manner. Although wardens are asked to go to the agent after the sixtieth day following the report month, the Department has found that the sending of a peace officer makes a big impression on the agent.

Chapter II - The Department of Fish and Game has Made Improvements in its
Administration of Commercial Fishing, Fish Taxes, and Data
Processing

The Department is in substantial agreement with the findings contained in this chapter of the audit report. As noted in the audit report, the Department is making an ongoing effort to further improve these areas.

Changes in Hiring Procedures

The Department agrees with the findings in this section and will consider the recommendations made in the audit report to make further improvements.

Dealer Account Balances and License Renewals

The comments in this section refer to the Department's actions to implement recommendations made in the November 1985 audit report to establish systems for maintaining balances of dealer fish tax accounts and monitoring license renewals.

The audit report is correct in stating that a system for maintaining dealer account balances is included in the Department's Fiscal System Feasibility Study. An automated system for monitoring commercial fish business license renewals has recently been implemented. The Compliance and External Audits Branch and wardens from the Special Operations Unit are presently coordinating a statewide effort to contact dealers who may not be in compliance with commercial fish business licensing requirements.

The Department concurs with the recommendations made in the audit report to improve administration of the fish tax program.

Changes in the Electronic Data Processing Section

During the period following the November 1985 audit report the Department's data processing function has undergone considerable change and growth. These developments have been in response to the greatly increased need for data processing services in the Department's line and administrative programs. In recognition of the need for growth and better organization, the Department, in early 1986, launched a concerted effort to assess information needs and develop plans for solving problems in this area. The areas of highest priority were deemed to be in the Fiscal and License areas and several task forces were formed to deal with these problems. Further, the Department sought approval to significantly augment the data processing staff. This approval was obtained in October 1986. This augmentation virtually doubled the size of the DP unit to seventeen personnel. Following the augmentation an accelerated recruitment was undertaken. By mid-December the unit was at full strength. The new staff included a Data Processing Manager II, several technical positions and an Office Technician.

With the addition of the new staff, the highest priority was completion of the first phase of the planning and evaluation process begun early in 1986. In addition to several previously completed task force reports the staff were directed to complete a comprehensive Five Year Information Systems Plan (sometimes referred to as an "automation plan"), a Feasibility Study Report (FSR) on the Department's license distribution and accounting system and an FSR describing system applications in addition to CALSTARS and networking of regional office computers to support these additional applications. These three documents are now complete and have been submitted to the Office of Information Technology (OIT), Department of Finance for review and approval.

While the Department is certainly cognizant of the concerns expressed in the November 1985 audit report, we felt that it was imperative to produce the aforementioned reports and deal with these very high priority, sensitive

concerns. Now that these documents have been submitted to the Department of Finance, staff have been able to direct their attention to the kinds of internal operational issues mentioned in the November 1985 audit report. The specific status of these areas of concern and the Department's plan for corrective action are described below.

Separation of Duties

With the addition of the new staff, the Department has created three separate and distinct units within the Information System (DP) Section. First, the Planning and Development Unit is responsible for the maintenance of the Information Management Annual Plan (IMAP) required by the SAM as well as the Department's Five Year Plan. Beyond that the unit provides the first evaluation of user requests for new service and will handle other short term projects and studies. Second, the Operations and Technical Support Unit is responsible for the operation of the central computer facility and production runs from established applications. Third, the Programming and Analysis Unit is responsible for the development of new applications and the modification of existing ones. The Department is now actively engaged in developing procedures to ensure that incompatible duties are totally separated and that the provisions of SAM Section 4846.5 are fully complied with. Prior to the addition of the new staff, a complete separation of duties was impractical given the small size of the unit.

Disaster Recovery

The Department is fully aware of the potential problems caused by the lack of a disaster recovery plan. The Department is currently evaluating several options including an interagency agreement permitting us to utilize the newly installed VAX based system in the Legislature or a contract with a private organization such as Aerojet which also has a large VAX based DP system. After this evaluation is completed, within the next few months, a specific plan of corrective action will be developed. As indicated in the audit report, backup copies of files are being stored at other locations.

Program Documentation

As in the other areas of deficiency, the Department acknowledges the problem of inadequate program documentation. However, in the last several months the Department has developed two new applications with full documentation. First, the Department was required to develop several new programs as a result of the passage of AB 3081, the Felando-Polanco Fisheries Act of 1986. Second, the Department has developed a prototype cost accumulation system which will be fully operational by July 1987. The Department is now embarked on an application by application review of documentation which, when concluded, will result in full documentation of all programs being used. In the next year the Department expects to be developing a totally new license distribution and accounting system which will be developed with full program documentation prepared to industry standards. As a result of this new development, the Department will not attempt to make major changes in the existing license programs including the documentation.

Reconciliation of Inventory

This problem reflects an inherent deficiency in the current license program. Essentially, the current automated system was designed to duplicate a historical manual system and was never intended to accomplish the tasks described in the audit report. Given the proposed overhaul of this system which is described in the aforementioned FSR, now under review at OIT, it does not appear feasible to correct this deficiency in the current system. The proposed system will, of course, provide considerably more sophisticated automated accounting and control mechanisms including the inventory reconciliation function.

The Department agrees that a monthly inventory management report that shows the overall additions and deletions to the inventory would be a good management tool. However, the Auditor General's report gives the impression that the Department lacks proper inventory controls. What the Department understands from previous discussions with the Auditor General's team about this finding is that the Department should have a monthly management report that shows an overall reconciliation of the entire inventory system.

The Department currently has an adequate system of transaction level checks and balances (supported by proper source documentation) that control additions to and deletions from the license inventory. The Department of Finance consultants have confirmed this in their reviews. The Auditor General's team concurred with this assessment during their December 1986 meeting with members of the Department's licensing staff.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps